

ECONOMIC POLICY FOR INDIA

1934

LECTURE DELIVERED BY MR. A. D. SHROFF AT THE SILVER JUBILEE
CELEBRATIONS OF THE UNIVERSITY SCHOOL OF ECONOMICS
AND SOCIOLOGY, BOMBAY, ON MONDAY THE 11TH AUGUST, 1947.



330.954
SB3 E

ECONOMIC POLICY FOR INDIA

I consider it a privilege to be asked to deliver the first of the series of lectures, arranged by the School of Economics and Sociology of the University of Bombay, as a part of the Silver Jubilee celebrations of the School. It is an event of no small significance that the School is celebrating its Silver Jubilee with a record of very useful and constructive service in a most unostentatious fashion. It is not unnatural that an Institution like this which trains young men for an objective, dispassionate and scientific study of a number of our social and economic problems, does not attract as wide a notice as other Institutions. All the same it is recognised that the School of Economics and Sociology has played, and I hope, it will continue to play in future, a very essential role in the process of nation-building.

The subject selected for today's lecture is "Financial Aspects of Economic Policy." It is only logical that before I deal with financial aspects of economic policy, I must endeavour to outline what in my view should be the economic policy for this country. As a matter of fact, anything like economic policy has been conspicuous by its absence throughout the period of British administration in India. The conception of Government in this country so far has been restricted to the Government acting as the perpetual policeman. There could perhaps be no greater condemnation of British rule in India than is epitomized in the title of the famous book by the late Mr. Dadabhoy Navroji, namely, "Poverty and unBritish rule in India." As a student of British administration of India, I fail to discover at any period during this administration any considered or set economic policy for the development of this country. Vital economic matters were deliberately ignored, and the country was denied an opportunity to tackle its biggest problem, namely, the removal of poverty. Even in recent years, and particularly during the period of the War, when economic problems could only be ignored at the risk of defeat, the measures taken were haphazard and emergent and could not be fitted into a consistent whole. This, of course, does not mean that thinking people in this country have not applied their minds to the necessity of formulating an economic policy for the country as is evidenced by the work of the National Planning Committee appointed by the Indian National Congress and by the efforts of a certain group of people like the authors of the Bombay Plan.

Lack of Statistical Data

The essential pre-requisite for the formulation of a correct economic policy is the availability of statistical data pertaining to various branches of the

economic life of the country. If any proof was needed in support of the contention that there has been no economic policy so far for the country, it is to be found in the woeful lack of adequate and reliable statistical data. It is true that as a result of the insistent demand made by some thinking people, efforts were made in recent years to improve the statistical organisation and it was hoped that the appointment of an Economic Adviser to the Government of India was intended, among other things, to make available, both to Governments and the public, statistical compilations which could constitute the basis for the formulation of a right economic policy for the country. Unfortunately, even today, the statistical organisation of the Government is extremely deficient, with the obvious consequence that people who are placed in the position of authority to take decisions on policies have often had to take a leap in the dark. Innumerable instances could be cited to demonstrate the validity of this statement. Take, for instance, the cost of living indices prepared in various parts of the country. A number of them are based on a period which has little in common with the conditions prevailing in recent times and are applicable to small sections of the population. Yet in the absence of more scientific and reliable indices they are being widely used for determining wages and salaries. Similarly, the last 1941 Census does not give the occupational distribution of our people and therefore presents a very incomplete picture of the economic organization of the country. No attempt has yet been made to have a census of industrial production which is so essential to understand, at a time like the present, the relative aspects of the process of inflation which has started again. So also, in regard to the vital question of food supplies, our statistical information is extremely defective, the crop estimates being formed on unreliable and unscientific information. These are a few illustrations to confirm the imperative need of the Government of India organizing at the earliest date a statistical department for collecting and compiling all the essential statistics necessary for the formulation of a sound economic policy. It is not often appreciated that reliable and up to date statistical data are as necessary to the policy making authorities as they are helpful to ensure the co-operation of the public in effectively implementing these policies. As a matter of fact, I attach so much importance to the economic policy of this country, that I venture to suggest that a new Portfolio should be created in the Cabinet of the future Government, which may be called "The Ministry of Economic Affairs" and one of the functions of this Ministry should be to maintain an up to date statistical organisation.

Standard of Living

The fundamental objective of our economic policy should be to raise the standard of living of the masses of this country. It is by now well-known

that the *per capita* annual income of the citizens of the U. S. A. is twenty-two times and that of the citizens of the U. K. sixteen times as large as that of the annual *per capita* income of Indians. It is also a matter of common experience that nearly one-third the population of this country have barely one square meal per day and that the wardrobe of an average Indian is the shirt and the dhotie that he carries on his person. The tragedy of this deplorable economic condition is accentuated by the realisation of the fact that vast natural resources with which the country is endowed have hitherto remained unexploited. In order to implement this fundamental objective of raising the standard of living, the economic policy of the country should be so directed as to ensure for the average person adequate food, clean housing and sufficient clothing. For the future Government of India to be able to meet even these bare elementary requirements would mean finding solutions for a host of complicated problems. I would endeavour for a few minutes to indicate the approach to and the method for tackling these problems.

Need for Planning

Although it is fashionable in certain quarters to decry planning, I believe it would be a considerable waste of time and effort for the future Government of India to endeavour to solve any economic problem in a piecemeal fashion without reference to its relation to the general economy of the country. In this respect the future Government of India will have the advantage that a considerable amount of very useful and constructive work of a preliminary character has already been done in the way of evolving a plan. Government should, therefore, set up either through the Minister of Economic Affairs or through the Planning Department, a Commission with necessary statutory powers to evolve a detailed plan of action. No such plan will work successfully unless Government decide upon certain essential priorities, although it would be recognised that in the actual working out of these priorities under certain heads, a number of problems will have to be tackled at the same time.

I need not elaborate here the actual machinery through which this Commission will work. We should benefit by our past experience when a Planning Department was set up but which unfortunately failed to achieve any substantial results. The main cause for this failure appears to lie in the lack of co-ordination amongst the various Government Departments, if not also in the unwillingness or apathy on the part of some Departments to co-operate actively with the Planning Department. In order to make sure that the work of the Commission is carried on effectively and with speed, the future Government of India will have to issue a directive to all Departments to carry out expeditiously the decisions reached

by this Commission. It is not only the Departments of the Government of India but also the various Provincial Governments and States constituting the Federation Units who will have to actively co-operate with this Commission. Time is the essence of the situation and therefore, a considerable amount of red-tapeism inevitable in the routine work of Government Departments will have to be ruthlessly eliminated. The pace and speed with which the problems of partition have in recent weeks been handled should prove an example to emulate.

Conflict of Policies

Before the Government of India embarks on the formulation of its future economic policy, there is one important matter on which it must take a firm and final decision. It is our unfortunate experience that the conflicting policies pursued by the various Provincial Governments have created great uncertainties and confusion in the minds of the public and consequently fresh enterprise or even expansion of existing economic activities has to a large extent been thwarted. This conflict must not arise in future. I believe time has come when we ought to speak our minds very frankly to our Government. There is a certain economic philosophy which has been associated with the distinguished name of Mahatma Gandhi and this philosophy is being preached and expounded through the columns of the *Harijan*. One of the energetic exponents of this policy has gone so far as to state that any large scale industrialisation on modern lines involves violence. The mystery of this philosophy is, I confess, inscrutable to me, but the association of Mahatma Gandhi's name with this school of thought has undoubtedly influenced a number of people, including the Ministers of certain Provinces. For instance, the decision of the Madras Government to ban any further expansion of the textile industry in the Province is inspired by the philosophy that the *charkha* alone will bring economic salvation to the people. Similarly, the persistent propaganda against the manufacture of Vanaspati is born of an understandable religious reverence for the cow, irrespective of the economic facts of the situation. Like all exponents of new philosophies some of them have allowed themselves to lose all perspective and indulge in fanatic appeals to the religious susceptibilities of the masses as may be evidenced by a statement in one of the articles in the *Harijan* that "manufacture of Vanaspati is tantamount to cow slaughter." Similarly the removal of salt duty was urged on the ground that everybody must have the right to make his own salt without reference to the practicability of everybody being in a position to do so.

The problem, therefore, before the future Government is whether they accept the fundamental objective of developing the Union of India into a

first-class economic power by the adoption of modern methods and technique in both agriculture and industry, subject to such essential modifications as may be necessitated by the peculiar circumstances of our country. This, of course, does not rule out the development of cottage industries nor the use of *charkha*, both of which should have their appropriate places in the economy. But if this country is to be developed economically on a large scale and with the greatest speed, I fail to see any other choice for Government. On the other hand, if the future Government of India are directly or indirectly to be wedded to the *Harijan* economics, let us not delude ourselves with the prospect of dragging poverty-stricken millions of this country out of the wretched sub-normal subsistence to which they have been accustomed for centuries past.

Food

In any well-considered policy or plan that the future Government may adopt, food, in my opinion, must claim the highest priority. Very high hopes were raised last year when a Popular Government at the centre came into being. I have no desire to be anything but fair to the Government of India, particularly to the Member-in-Charge of the Food Department, but I must admit that the country has been faced with an exceptionally difficult situation regarding supplies, both from within and without. At the same time, there is a very strong and growing feeling among the majority of the people, which I largely share, that this subject, so vital to the teeming millions of this country, has not received that attention from the Government which the public expect. With all the grandiose schemes for growing more food in the country, there is very little evidence to show that any effective steps or measures have so far been taken to relieve the growing shortage of foodstuffs. Food and Agriculture are combined in one Department. This Department calls for quick decisions and utmost drive in seeing that these decisions are expeditiously carried out. I am sorry to say that the administration of this Department has shown lack of both, with the result that today the country is faced with the alarming prospect of the difficulty of maintaining even the current attenuated rations. Whilst it would not be correct to ignore the immensity of the problem of food production and its equitable distribution in a country of the dimensions of India the continuance of hoarding and black markets is a serious reflection on the administration of food.

Out of sheer desperation, it has been suggested in certain quarters that the existing control on foodstuffs should be removed. I wish to sound a note of warning that if any such suggestion receives countenance from the Government of India, it would be a most dangerous experimentation with human lives. The suggestion is inspired by a defeatist mentality. There are many thinking people

on the other hand who believe that exceptionally difficult though the problem is, it can be tackled successfully if it is approached and met in a businesslike way

Diminishing Production & Attitude of Labour

It is obvious that Government will take some time before it evolves a well-considered plan for the economic development of the country. The country today is confronted with the very serious problem of gradually diminishing production all round, and therefore, unless the situation is to be allowed to go completely out of control, very urgent measures, even though they be of an interim character, will have to be taken to raise the level of output. The fall in production may be attributed to a number of causes some of which are only repercussions of the international economic situation and are therefore, well beyond the competence of any Indian Government to tackle. But the more important factor, and which is not beyond the control of the Indian Government, is the labour situation. Whilst I have the fullest sympathies with the working classes in the hardships they are subjected to as a result of the ever-increasing cost of living in the country, to a considerable extent they are being mitigated by adjustments in dearness allowance and upward revision of wages, and there is neither defence nor justification for increased absenteeism and slow-down tactics on the part of the workers. As a matter of fact the spirit of indiscipline is widespread, and some times, even violence is resorted to to enforce all sorts of demands put up by labour. A situation is now being created which does not only concern the employer and the employee. The stability of the whole industrial economy and its capacity to maintain the economic life at a certain minimum level are at stake. That in a period when the country is passing through the unprecedented experience of a revolutionary change in its political framework and when unusual hardships engendered by acute shortages are being keenly felt, there should be some unrest amongst the working classes is not incomprehensible ; but then that is exactly the time when Government ought to step in to see that the economy of the country is not disrupted by tactics which not only hamper production but add to the hardships of the community through further shortages of the necessities of life. It is high time, in my opinion, that the Government of India frankly declare to the working classes that increased absenteeism and slow-down tactics are most detrimental to the general interest of the country and therefore will not be tolerated. I do not for a moment wish to suggest that Government should not intervene to obtain for labour a reasonable remuneration and decent working conditions, but I cannot help feeling that the manner in which trade disputes are allowed to be created and referred for adjudication would not be conducive either to establishing stability or stimulating production.

Inflation

Another problem which cannot brook any further delay is the problem of inflation. In recent months there has been no substantial increase in the notes in circulation in this country and yet the process of inflation continues to operate, partly through an increase in the quantity and velocity of circulation of bank money but mainly on account of the substantial accretion of purchasing power in the hands of the lower income groups. The diminished production in recent months, if anything, has tended to intensify this process, with the result that the unhealthy race between quantity of money and the quantity of goods available still continues unabated. The vicious spiral of wages trying to catch up prices and prices trying to adjust themselves to increased costs is still in operation. The implementation of the recommendations made by the Pay Commission and their unavoidable effect on the general structure of wages and salaries in the country will further aggravate the situation, though of course I should not be understood to argue that these recommendations were not justified by the circumstances of the case. In my opinion, unless Government make up their mind to cry a halt to this unending process, it can only lead to a severe weakening, if not ultimate paralysis, of the economy. I would strongly urge Government to explore the possibility of freezing prices and wages at the existing level with the definite objective of gradually bringing them down to a basis where on a long-term view they can be stabilised. Whilst recommending this course of action I am fully conscious of the special difficulties some of our industries are confronted with today. For instance, in the case of certain sections of the cotton textile industry, the added increase in the cost of labour as a result of the various awards given by Adjudicators, the margin of profit is almost reaching a negative figure. Similarly, in the case of some of our big industries, a severe decline in profits as a result of increased labour cost raises very delicate problems arising out of profit-sharing arrangements. But on the other hand, there is very little doubt that any further increase in prices will create fresh demands for increased wages which it will be difficult to resist. In the larger interest, therefore, of assuring some stability to the economy of the country, it is becoming imperative that Government must refuse to acquiesce in any further increase in prices and wages. Again the present process of adjusting prices to wages and wages to prices offers no incentive either for rationalisation or for increased output and is bound to create an attitude of complacency, on the part of both management and labour.

Towards a Financial Policy

In the absence of a well-defined economic policy, it is not easy to prescribe principles which should determine the financial aspects of such policy. However,

since it is generally accepted that economic policy should be aimed at increased production all round, it is possible to indicate certain lines of financial policy which would facilitate effective implementation of this objective. Perhaps the financial aspects of this policy would be better indicated by illustrating the disastrous effects of certain ideologies which recently have influenced both the Government of India and the various Provincial Governments. The last Government of India Budget was framed on the much vaunted basis of social justice. Finance and credit are not matters which easily lend themselves to adjustment with vague generalities. Social justice has been sought to be interpreted in the last Budget as a policy of soaking the rich without conferring any benefit on the poor. As a matter of fact the process of soaking the rich, as was anticipated at the time by various critics, has resulted in diminished production and reduced employment and has scared away private enterprise from new undertakings. Similarly, the abolition of the Salt Tax was inspired by an ideology entirely unrelated to the facts of the situation.

If we turn to the field of Provincial Finance, we find a similar attitude of frittering away important sources of revenue in pursuance of the mistaken belief that man can be made moral by legislation. Apart from many other sound reasons against the policy of prohibition adopted by some of the Provincial Governments, I consider this policy as extremely short-sighted from the financial point of view. Situated as we are in this country, with poverty staring us in the face, our sources of revenue are few and limited, particularly when they are related to the enormous and expanding needs of every Province. I have no doubt that before very long, these Provincial Governments will be awakened to a sense of reality and recognise the blunder they are making in sacrificing crores of excise revenue which can be profitably utilised in furthering a number of nation building activities. The reasoning recently advanced in support of this frenzied finance, that Government do not consider it right to collect 26% of the revenue of a Province from 10% of its people, can hardly be reconciled with the claim of a Popular Government to base its taxation policy with a view to imposing the heaviest burden on those who can comfortably bear it. It is also no justification for throwing away such a large proportion of the revenue of a Province that it can be replaced by a new tax like the Sales Tax. I am sure we all will live and learn but the cost involved may ultimately be disastrous and prejudicial to the furtherance of our economic well-being. Governments are also human institutions and they dare not ignore the wise precept of Shakespeare that there must be "cake and ale" also in life.

The financial policy of the country may be considered under three separate heads : (1) Currency ; (2) Taxation ; and (3) Development Finance.

(1) *Currency.*—The Currency Policy of the country should be so framed as to ensure general stability and a level of prices which would stimulate productive activity without providing impetus to unhealthy speculative trading. It should be elastic enough to meet the growing requirements of an expanding economy, and at the same time, provide for automatic adjustment in periods of seasonal slow-down. I am not sure whether in the changing circumstances of the country, the basis on which our currency is maintained today will not need suitable adaptation to the requirements of the future. I, for one, am strongly of the opinion that the Currency Reserve of the country should be so composed as to make its own contribution towards the development of the country.

(2) *Taxation.*—The Taxation Policy of the future will have to be brought in conformity with the general objective underlying the economic policy of the country. The orthodox method of compiling Annual Budgets and the sanctity attached to the balancing of Budgets are conceptions which would hardly be found suitable to the carrying out of a progressive economic policy. If this country decides, and I hope it will ultimately so decide, to develop its economy on the basis of a well-considered plan, we shall have to adopt the practice of a 3-year Budget, or of two Budgets, one dealing with the normal activities of Government and the other with development programmes. In recent years the tendency for the direct taxes to assume a larger proportion of the total tax revenue has been in great prominence. At least in the earlier years, before the development of the country acquires tempo, direct taxation is bound to be a much larger contributor to the Central Exchequer, but this direct taxation can be so devised that it does not discourage fresh enterprise but stimulates productive activity. The structure of taxation should be so adapted as to encourage savings for further productive effort. The blunders made in the last Budget of incapacitating the richer classes from accumulating savings needs immediate rectification, if fresh private enterprise is not to be stifled. Direct taxation should also be explored as an instrument for discouraging the idle rich who are parasites and cause a wasteful drain on the common pool without contributing anything to the pool.

Similarly, indirect taxation should not only be considered as a source of revenue contributed by the community in general but should be utilised as a lever for stimulating and safeguarding productive enterprise. This country has been hampered considerably in the development of a number of industries for want of certain raw materials and semi-manufactured goods. Import of such materials should be facilitated either by special exemption or by lower import duties to facilitate the promotion and establishment of a number of medium scale industries.

(3) *Development Finance*.—There is a wide-spread, though fundamentally mistaken, belief in this country that all the money required for a large scale development would be readily available from indigenous sources. Unfortunately, in the absence of reliable statistical compilations, it is not possible to demonstrate the invalidity of this belief but experience of people who have been in industries for a long period and who have handled the financing of industries clearly indicates that shortage of capital will be one of the major headaches in our development projects. Not only that the capital available for large development projects is limited, but even today to a certain extent it is shy. Whilst it may be true that established business firms of proved reputation have been able to raise the necessary capital for their business and industries, it is the unfortunate experience of a large number of small people who, for lack of adequate finance, have either not been able to start on productive activity, or have been compelled to give up their effort for lack of adequate finance. A stage, therefore, has been reached where some agency should be created by which a number of small and medium scale industries can be promoted and established with the assurance of adequate finance. In my opinion, the best method to tackle this problem would be for the Central Government to create an Industrial Finance Corporation with an initial grant of Rs. 5 crores. Every federating unit should be asked to contribute every year a small percentage of its total revenues towards the capital funds of this Corporation. The capital fund so raised should be utilised either for direct investments or for the guaranty of a minimum rate of interest on the capital raised by the promoters of an industry who apply for assistance to the fund. Management of the fund should have a body of technical advisers who will scrutinise every application for assistance and if satisfied about the soundness and the practicability of the project, would advise the Corporation to assist. The Corporation, in consideration of the guaranteed minimum return on capital raised, would prescribe certain conditions, namely,

- (a) that when the industry reaches the profit earning stage, it shall not pay by way of dividends anything in excess of the guaranteed rate of interest and shall refund to the Corporation at least 50% of the excess profits towards redeeming its liability to the Corporation for the guaranteed return before the industry reached the profit earning stage.
- (b) For 10 years after the industry has redeemed its liability to the Corporation, it shall contribute 25% of its surplus distributable profits to the Corporation after providing for a 6% dividend on its paid up capital.

- (c) The Corporation shall be entitled to nominate a Director on the Board of such a Company and shall also be further entitled to appoint its own Auditor to examine the Company's books of accounts.

The main objective underlying the scheme is that with the direct participation of this Corporation in the capital of a new company, or with a minimum guaranteed return on the capital of the new company, the small and unknown man, though possessed of the knowledge of running a new industry, will be enabled to raise the requisite capital from the public. On the other hand, the conditions laid down will enable the Corporation, through its capital funds, to assist a large number of people throughout the country in setting up small and medium scale industrial establishments which today, because of the difficulty of raising capital or working finance, is not possible.

Similarly, for financing agricultural products, the co-operative system of financing should not only be considerably expanded but also modified in its actual working so as to bring it within the reach of the average cultivator. The need of India today is intensive and more scientific cultivation which would call for increased finance. As a matter of fact, the difficult problem of fragmentation of land, which has resulted in reducing the average agricultural holding "to the size of a pocket handkerchief" will ultimately find its solution in co-operative farming which should be immediately encouraged on a voluntary basis.

Foreign Capital

There is a good deal of misunderstanding and confusion of thought in this country regarding the import of foreign capital. In my view rapid development of this country would be seriously prejudiced, if not thwarted, if the import of foreign capital is banned. There is undoubtedly a very strong political aspect about foreign capital in India, but with the establishment of political independence and with a strong National Government in power, all apprehensions about political domination creeping through foreign capital is now entirely misplaced. Once political stability is assured, foreign capital can be attracted to this country which we will badly need and if it is allowed to enter India, subject to the overriding condition that in every project where such capital is employed previous sanction of the Central Government is obtained, I think it would be in the larger interest of the country to encourage its import. Loose, ill-considered talks about discrimination against and expropriation of foreign capital will only result in scaring it away. It is not generally realised that advanced industrial countries of the world, who have at their command the know-how and

specialised technique in respect of a number of industries, are not too anxious to pass on to us the benefit of their long experience or the results of their researches acquired over a long period and at considerable cost. In a number of cases, very naturally, such people insist on having a capital participation in consideration of their making available their technical knowledge and experience and India can ill-afford to lose these technical services for a mere academical objection to the entry of foreign capital in the country.

Trained Administrative Personnel

Any economic policy that may come to be adopted by the future Government to be successful will have to be carried out by an administrative machinery handled by trained personnel. One of the greatest deficiencies at present is the lack of trained personnel in practically every sphere of life in this country. In future, Government should take an increasingly active part in the economic life of the country, and without any disrespect to the experienced Civil Servants, I make bold to suggest that Government will have to recruit people with practical bias and train them for tackling economic problems. In this connection, I would like to make one definite suggestion. Foreign education is a very valuable asset. We are, however, not too abundantly supplied with talent and in order to conserve and mobilise the available talent in the most effective manner, students going abroad should be encouraged to specialise themselves in subjects like physics, chemistry, geology, engineering, both mechanical and electrical, economics, statistics etc., so that in the course of the next 5 to 10 years, we may build up a nucleus of trained personnel to expedite the execution of large scale projects in the country.



338.954

1934

